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PP RUEHWEB

DE RUEHCV #0956 1911954
ZNR UUUUU ZZH
P 091954Z JUL 08
FM AMEMBASSY CARACAS
TO RUEHC/SECSTATE WASHDC PRIORITY 1434
INFO RUEHBO/AMEMBASSY BOGOTA 7819
RUEHLP/AMEMBASSY LA PAZ JUL LIMA 1058
RUEHQT/AMEMBASSY QUITO 2872
RHEHNSC/NSC WASHDC
RUMIAAA/HQ USSOUTHCOM MIAMI FL
RUCPDO/DEPT OF COMMERCE
RUEATRS/DEPT OF TREASURY

UNCLAS CARACAS 000956

SENSITIVE
SIPDIS

HQ SOUTHCOM ALSO FOR POLAD
TREASURY FOR MEWENS
NSC FOR JSHRIER
COMMERCE FOR 4431/MAC/WH/MCAMERON
SECSTATE PASS AGRICULTURE ELECTRONICALLY

E.O. 12958: N/A

TAGS: [ECON](#) [AMGT](#) [ALOW](#) [APER](#) [AFIN](#) [ABUD](#) [VE](#)

SUBJECT: INFLATION CONTINUES RELENTLESS MARCH WITH FOOD
PRICES LEADING THE WAY

REF: A. CARACAS 493
[1](#)B. CARACAS 313
[1](#)C. CARACAS 376
[1](#)D. CARACAS 769

[1](#)1. (U) According to the national consumer price index (CPI-N) compiled by the Central Bank and the National Statistics Institute, inflation for the month of June was 2.4 percent and reached 15.1 percent for the first half of 2008. Annualized inflation (June 2006 to June 2007) topped 32 percent in Caracas. (Note: The CPI-N is a new measure; for historical comparisons before January 2008, the Caracas CPI must be used (ref A). End note.) Food prices continue to be a leading driver of inflation: inflation in the food and non-alcoholic beverages category was 19.3 percent for the first half of 2008 and reached an astounding 49.6 percent in Caracas over the last 12 months. Other leading drivers of inflation were restaurants and hotels (23.1 percent in the first half of 2008), transportation (17.5 percent), and health (16.6 percent).

[1](#)2. (U) Inflation has worsened in 2008 despite BRV attempts to reduce it with a more restrictive monetary policy and by controlling the parallel foreign exchange rate (ref B and C). These measures have certainly slowed the growth in demand: as one economist pointed out, wealthier Venezuelans (and foreigners) who have the primary part of their savings (or income) in dollars have seen effective local prices rise 150 percent (i.e., what used to cost the equivalent of USD 1 now costs the equivalent of USD 2.5) from November 2007 through June 2008, taking into account inflation and the fall in the parallel rate. Nevertheless, the government's measures have not yet slowed inflation for several reasons. Inflationary expectations have been fueled by President Chavez' recent announcements of 30 percent hikes in the minimum wage, in most public-sector salaries, and in military salaries; there is also a widely held expectation that fiscal spending will increase in the run-up to the November regional elections. Other reasons the BRV's measures have not slowed inflation to date include poor incentives to invest in increased local production and the BRV's intermittent raising of prices of price-controlled goods (or, in some cases, lifting the controls altogether) to reduce shortages.

[1](#)3. (SBU) Comment: As noted in refs B and D, inflation is a key political issue given the fact that many Venezuelans, and

especially poor Venezuelans (i.e., Chavez' political base), are feeling their real purchasing power start to decline. Food prices are of special concern to the BRV given the importance of food in the consumption basket of poor Venezuelans. President Chavez and his cabinet, including new Minister of Finance Ali Rodriguez, have claimed that increasing domestic food production is a top priority, but to date BRV policies have certainly failed in containing food prices. End comment.
DUDDY